

CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION

Request to Approve Issuance of Tax-Exempt Bonds and Transfer Industrial Development Bond (IDB) Allocation

Evolve Manufacturing Technologies, Inc. Application No. 14-0002

April 24, 2014

SUMMARY

Borrower/Project Sponsor – King Family Properties, LLC and/or a related entity

User – Evolve Manufacturing Technologies, Inc. and/or a related entity

Issuer – Alameda County Industrial Development Authority

Location – City of Fremont, Alameda County

Requested IDB Allocation – \$5,700,000

Public Benefit Points Awarded – 53 points out of 147 possible

Staff Recommendation – Approval

THE COMPANY

Evolve Manufacturing Technologies, Inc. (the “Company”) was incorporated in California on April 15, 1999, and it is owned 100 percent by its President, Noreen King. The Company is a contract manufacturer that offers solutions for precision mechanical and electro-mechanical products for a variety of customers and industries. The Company is also involved in the production and distribution of medical ultrasound, defense and biotechnology lab equipment. Major costumers of the Company include Zonare Medical Systems, Stanford Research Institute and BD Bioscience.

The principal stockholders of the Company are as follows:

Noreen King	<u>100%</u>
Total:	<u>100%</u>

THE PROJECT

Bond proceeds will be used for the acquisition of an existing building located in the City of Fremont. The 72,486 sq. ft. building was constructed in 1991. The Company has experienced considerable growth in the past three years and needs a larger space in order to meet its customer commitments. Acquiring ownership of this building will allow the Company to make modifications

on its own and to expand operations to keep up with its growing contract manufacturing business in the medical and robotics fields.

Anticipated Project and Issuance Costs

	To be paid from <u>bond proceeds</u>	To be paid from <u>all other sources</u>
Acquisition of Land	\$0	\$2,300,000
Acquisition of Existing Building	5,190,000	210,000
Rehabilitation of Existing Building	400,000	200,000
Acquisition and Installation of Used Equipment	0	100,000
Bond Issuance Expenses	110,000	25,000
Letter of Credit or Bond Insurance Fee	0	90,000
Other, Contingency	0	200,000
Totals	<u>\$5,700,000</u>	<u>\$3,125,000</u>

Timeline

The Company has entered into a purchase agreement with JER BTPII, LLC to purchase the building by May 28, 2014. Renovations are anticipated to begin in June 2014 and be completed by July 30, 2014.

Financing Details

The tax-exempt IDBs will be sold in a public offering. The bonds will be variable rate low floater bonds with a weekly reset, and they will be secured by an irrevocable Letter of Credit issued by Wells Fargo, National Association.

Financing Team

- Issuer: Alameda County Industrial Development Authority
- Credit Enhancement Provider: Wells Fargo, N.A.
- Bond Counsel: Schiff Hardin LLP
- Bond Underwriter: Westhoff, Cone & Holmstedt
- Escrow Agent: Wilmington Trust, N.A.

PROJECT EVALUATION

PUBLIC BENEFITS: The Project received 53 points out of a possible 147 pursuant to the California Debt Limit Allocation Committee (CDLAC) scoring system for IDB Projects. The award of points is detailed below:

A. Community Economic Need (0 of 25 points).

- 1. Unemployment Rate of the Project Area (0 of 10 points).** In accordance with CDLAC Regulations, points are awarded in this category if the 2013 unemployment rate of the county sub-area in which the Project is located is at least 125 percent of the 2013 statewide rate. The unemployment rate of this Project area is 59.55 percent of the statewide rate. Therefore, the Project received 0 points in this subcategory.
- 2. Poverty Rate of Project Area (0 of 5 points).** In accordance with CDLAC Regulations, the most recent data from the U.S. Bureau of the Census, which in this case is Census 2012 data, is used to determine if the Project qualifies for points in this category. Points are awarded in this category if the poverty rate is at least 110 percent or more of the statewide rate. The poverty rate for this Project area is 3.4 percent, which is 22.22 percent of the Census 2012 statewide rate of 15.3 percent. Therefore, the Project received 0 points in this subcategory.
- 3. Special Designation Area (0 of 5 points).** The Project is not located in a special designation area.
- 4. Median Family Income (0 of 5 points).** In accordance with CDLAC Regulations, the most recent data from the U.S. Bureau of the Census, which in this case is from Census 2012, is used to determine if the Project qualifies for points in this category. Points are awarded if the Project is located in an area with a median family income of less than 80 percent of the statewide average. The Project is located in the City of Fremont where the average median family income is \$138,365. The median family income for the State of California is \$61,400. So, the median family income for the Project area is 225.4 percent of the statewide average. Therefore, the Project received 0 points in this subcategory.

B. Job Creation (35 of 35 points). Points are awarded in this category based on the borrower and/or user's representation that it will use its best efforts to increase the number of direct, full-time employees at the Project site within two years of Project completion. The company represents that it currently employs 50 direct, full-time employees at the Project site. The company represents that it anticipates hiring an additional 30 direct, full-time employees, which equates to a 60 percent increase, within two years of completion of the Project. Therefore, the Project received 35 points in this subcategory.

C. Job Retention (0 of 10 points). Points are awarded in this category based on the Borrower's or User's representation that it has considered moving operations out of state. There was no such representation in the application materials received, and therefore the Project received no points in this category.

D. Average Hourly Wage (10 of 10 points). In accordance with CDLAC Regulations, the most recent data from the Bureau of Labor Statistics, which in this case is May 2013, is used to determine if the Project qualifies for points in this category. Points are awarded if the company's average hourly wage is at least 105 percent of the nearest Metropolitan

Statistical Area (MSA) average hourly wage. The company's average hourly wage is \$22.93, while the MSA for Oakland/Fremont/Hayward area had an average 2013 manufacturing wage of \$13.55. Therefore, the company's average hourly wage is 179.43 percent of the average manufacturing wage for the Oakland/Fremont/Hayward area. Therefore, the Project received 10 points in this subcategory.

E. Workforce and Economic Development (0 of 15 points).

1. **Welfare-to-Work Plan (0 of 5 points).** The Company did not provide any information indicating participation in a welfare-to-work program.
2. **Workforce Training (0 of 5 points).** The Company did not provide information indicating participation in a workforce training program.
3. **Exports Outside California (0 of 5 points).** The Company did not provide information indicating that they export products outside of California.

F. Health Care Benefits (0 of 15 points). The Company indicated that it contributes to medical, dental and vision insurance for its employees, but the documentation of the benefits was not sufficient according to the CDLAC regulations.

G. Payment of Retirement Benefits (0 of 5 points). The Company did not provide information indicating the contribution to payment of retirement benefits for its employees.

H. Environmental Stewardship (3 of 27 points).

1. **Land Use (3 of 3 points).** This Project involves the reuse of a vacant building.
2. **Public Transit Corridor (0 of 4 points).** The Company did not provide verification that the Project site is located within a public transit corridor.
3. **Energy Efficiency and Renewable Energy (0 of 15 points).** The Company did not provide information regarding the Project's energy efficiency.
4. **Manufacturer of Certified Environmentally Preferable Products (0 of 5 points).** The Company did not provide information indicating that the Project produces or will produce environmentally preferable products.

I. Leveraging (5 of 5 points). The total Project cost is \$8,825,000. The Company will borrow \$5,700,000 million of the Project costs in the form of tax-exempt IDB financing, which will cover approximately 64.6% of the Project costs. The remaining 35.4% of Project costs will be covered by the Borrower's equity or other funds. In accordance with CDLAC Regulations, points are awarded in this category if the taxable debt of the project is 10% or greater of the bond amount. Therefore, 5 points were awarded in this category.

RELOCATION OF COMPANY OPERATIONS

The Company is relocating from the City of Mountain View in Santa Clara County to the City of Fremont in Alameda County. The Company spent three years looking for an affordable expansion space to house its growing company. The location in Fremont provides the Company with the ideal building at an affordable price.

QUALIFICATION OF BOND ISSUANCE

Based on the proposed financial structure, and the application and other materials submitted to CIDFAC for this Project, staff believes the bonds (a) will be adequately secured; (b) will be fair, just and equitable to a purchaser of the bonds; and (c) will not defraud the bond purchaser. Final determination of qualification of the bonds will be subject to staff's review of final bond documents prior to the issuance of the bonds.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

- The Alameda County Industrial Development Authority approved the Inducement Resolution in an aggregate amount not to exceed \$6,000,000 in tax-exempt IDBs for the Project on April 8, 2014. The Alameda County Industrial Development Authority anticipates adopting a final resolution for the Project in May 2014.
- A TEFRA hearing was held by the Alameda County Board of Supervisors on April 8, 2014.
- The parcel of land described in the project description is zoned Restricted Industrial (I-R), which allows for industrial development. The purpose of the I-R district is to provide areas devoted to research and development activities, such as product development, engineering, sales and administration, as well as light manufacturing and wholesale uses.

LEGAL QUESTIONNAIRE

Staff reviewed the Borrower's/User's responses to the questions contained in the Legal Status portion of the application. The responses did not disclose any information that raises questions concerning the financial viability or legal integrity of the Company.

PRIOR ACTIONS

None.

LOCAL GOVERNMENT SUPPORT

Staff received one letter of support for the Evolve Manufacturing Technologies, Inc. Project from Kelly Kline, Director of Economic Development for the City of Fremont (Attachment B).

CIDFAC FEES

In accordance with CIDFAC regulations, the Company has paid CIDFAC an application fee of \$1,250 ¹ and will pay a closing fee of up to \$14,250.

RECOMMENDATION

Staff recommends approval of Initial and Final Resolution No. 14-0002 for \$5,700,000 in tax-exempt industrial development bonds and Allocation Resolution No. 14-2-002 for \$5,700,000 in tax-exempt IDB allocation for the Alameda County Industrial Development Authority on behalf of the Evolve Manufacturing Technologies, Inc. project. Staff's recommendation is subject to staff analysis and approval of final bond documents and receipt of bond counsel's opinion as set forth in Initial and Final Resolution No.14-002.

Staff report by: Andrea Gonzalez

¹ California Code of Regulations Title 10, Chapter 8, Article 3, §6070

**INITIAL AND FINAL RESOLUTION OF THE
CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING
ADVISORY COMMISSION (CIDFAC)
INDUSTRIAL DEVELOPMENT BONDS
IR/FR #: 14-0002**

WHEREAS, the Alameda County Industrial Development Authority (the “Applicant”) has transmitted the application of King Family Properties, LLC (the “Project Sponsor”) for the issuance of \$5,700,000 in tax-exempt bonds under the provisions of the California Industrial Development Financing Act, and has transmitted said application to the California Industrial Development Financing Advisory Commission (the “Commission”) and the information necessary to permit review of said application by the Commission, and has informed the Commission that it has adopted a resolution declaring its intention to issue such bonds and that the City of Fremont held a public hearing regarding the issuance of the bonds and has approved the issuance of the bonds by the Applicant; and

WHEREAS, the Commission has reviewed the application and the materials submitted with the application.

NOW, THEREFORE, the Commission resolves as follows;

Section 1. The Commission, based on its review of the application and the information submitted therewith, does determine that the public benefits described in the application likely will substantially exceed any public detriment from the issuance of the bonds in the total principal amount of \$5,700,000; and

Section 2. The Commission conditionally finds that the proposed issuance of the bonds qualifies under the provisions of Article 5 of Title 10 of the Government Code, and further finds that:

(a) the bonds will be adequately secured and the funds available to the Applicant will be sufficient to pay the principal of and interest on the bonds to be issued; and

(b) based on its review of the preliminary material submitted to it and as provided for under Government Code Section 91571, the proposed issuance will be fair, just and equitable to a purchaser of the bonds, and that the bonds proposed to be issued and the methods to be used by the Authority in issuing them will not be such as will work a fraud upon the purchaser thereof.

Section 3. The Commission determines that it is appropriate to the proposed transaction that the qualification of the proposed issuance be subject to the following conditions:

(a) the Bond Counsel Opinion, when ready for execution, shall be submitted to Commission staff;

(b) the final legal documents, when ready for execution, shall be submitted to Commission staff for its review. Submitted documents shall include:

(i) Loan Agreement,

(ii) Tax Certificate and Agreement,

(iii) Indenture, and;

(iii) Other documents which, in the opinion of Commission staff, are necessary to the review of the transaction;

(c) the Commission staff shall determine that the final documents associated with the transaction have been developed in form and content substantially similar to the representations in the application on which are based the findings under Section 2. above;

(d) the bonds, when issued, are within the maximum limitation of bonds authorized in the California Industrial Development Financing Act (Section 91573(a) of California Government Code);

(e) the Commission shall receive all applicable fees prior to the issuance of the bonds, unless the bond documents indicate that such fees are to be paid from the proceeds of the bonds; and

(f) the Project Sponsor agrees to comply with Section 91533(l) of the Government Code relating to the payment of prevailing wages.

Section 4. This Resolution shall cease to be effective if the above-described bonds have not been issued within six months after the date of adoption of this Resolution.

Section 5. In compliance with the provision of the California Industrial Development Financing Act (Section 91754 California Government Code), the qualification of the proposed bond issue by this resolution is permissive only, and does not constitute a recommendation or endorsement of the bonds so qualified by the Commission.

**THE CALIFORNIA INDUSTRIAL DEVELOPMENT
FINANCING ADVISORY COMMISSION
RESOLUTION NO. 14-2-002
RESOLUTION TRANSFERRING A PORTION OF THE 2014 STATE CEILING
FOR QUALIFIED PRIVATE ACTIVITY BONDS FOR A
SMALL-ISSUE INDUSTRIAL DEVELOPMENT PROJECT**

WHEREAS, that the California Debt Limit Allocation Committee (“CDLAC”) awarded allocation to the California Industrial Development Financing Advisory Commission (the “Commission”) for the purpose of awarding a portion of the allocation to local and State issuers; and

WHEREAS, the Commission has the authority to transfer a portion of its allocation to local and State issuers; and

WHEREAS, the Commission has received an application (“Application”) from the Alameda County Industrial Development Authority (“Applicant”) requesting a transfer to the Applicant of a portion of the 2014 State Ceiling on Qualified Private Activity Bonds (the “State Ceiling”) under Section 146 of the Internal Revenue Code of 1986, as amended, for use by the Applicant to issue bonds or other obligations (“Bonds”) for a project as specifically described in Exhibit A (“Project”) (capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Procedures of the CDLAC Implementing the Allocation of the State Ceiling on Qualified Private Activity Bonds (“CDLAC’s Procedures”)); and

WHEREAS, the Project Sponsor (as defined in Exhibit A) has represented certain facts and information concerning the Project in the Application, which the Applicant has confirmed; and

WHEREAS, in evaluating the Project and potential allocation of a portion of the State Ceiling to the Applicant for the benefit of the Project, the Commission has relied upon the written facts and information provided in the Application and otherwise by the Project Sponsor and the Applicant; and

WHEREAS, it is appropriate for the Commission to make a transfer of a portion of the State Ceiling (“Allocation”) in order to benefit the Project described in the Application.

NOW, THEREFORE, the California Industrial Development Financing Advisory Commission resolves as follows:

Section 1. There will be a transfer to the Applicant an amount of the State Ceiling equal to \$5,700,000. Such Allocation may be used only by the Applicant and only for the issuance of Bonds for the Project, as specifically described in Exhibit A. All of the terms and conditions of Exhibit A are incorporated as though fully set forth herein (this resolution, together with Exhibit A, hereinafter referred to as the “Resolution”).

Section 2. The terms and conditions of this Resolution shall be incorporated in appropriate documents relating to the Bonds, and the Project Sponsor, the Applicant and their respective successors and assigns will be bound by such terms and conditions.

Section 3. Any modification to the Project made prior to the issuance of the Bonds must be reported to the Executive Director or Deputy Executive Director and, if the Executive Director or Deputy Executive Director determines such modification to be material in light of the Commission’s Procedures, such modification shall require reconsideration by the Commission

before the Allocation may be used for the Project. Once the Bonds are issued, the terms and conditions set forth in this Resolution shall be enforceable by the Commission through an action for specific performance or any other available remedy, provided however, that the Commission agrees not to take such action or enforce any such remedy that would be materially adverse to the interests of the Bondholders. The Commission may, as circumstances warrant, consent to changes in the terms and conditions set forth in this Resolution in the event the Commission is advised of changes in the Project.

Section 4. Prior to the issuance of the Bonds, any material changes in the structure of the credit enhancement and not previously approved by the Commission shall require approval of the Commission Chair or the Executive Director or the Deputy Executive Director.

Section 5. The Applicant is not authorized to use the Allocation transferred hereby to make a carryforward election with respect to the Project. The Applicant is not authorized to transfer the Allocation to any governmental unit in the State other than this Commission.

Section 6. The potential Allocation transferred herein shall automatically revert to this Commission unless the Applicant has issued Bonds for the Project by the close of business within 90 days of the award of Allocation. In the case of extreme hardship, the Executive Director or the Deputy Executive Director may extend this date by up to five (5) business days.

Section 7. Within twenty-four (24) hours of using the Allocation to issue the Bonds, the Applicant shall notify the Commission's staff and CDLAC's staff in writing (which may be by electronic or facsimile communication) that the Allocation has been used. Each notification to the Commission and to CDLAC shall identify the Applicant, the project or program, the date the Allocation was used, and the amount of the Allocation used.

Section 8. Within fifteen (15) calendar days of the issuance of the Bonds, the Applicant or its counsel shall formally transmit to CDLAC information regarding the issuance of the Bonds by submitting, in a form prescribed by and made available by CDLAC a completed Report of Action Taken. In addition, the Applicant shall provide the Commission with a copy of the final Official Statement, Private Placement Agreement, or other appropriate sale document.

Section 9. Any differences between the amount of Bonds issued and the amount of the Allocation granted in Section 1 of this Resolution shall automatically revert to the Commission. If at any time prior to the expiration date set forth in Section 6 of this Resolution the Applicant determines that part or all of the Allocation will not be used to issue Bonds by that date, the Applicant shall take prompt action by resolution of its governing board or by action of its authorized officer to return such unused Allocation to the Commission.

Section 10. The staff of the Commission is authorized and directed to transmit a copy of this Resolution to the Applicant together with a request that the Applicant retain, for the term of the Bonds, a copy of this Resolution in the Applicant's official records. The Commission staff is further directed to retain a copy of this Resolution in the files of the Commission (or any successor thereto) for the same period of time.

Section 11. In consideration of the potential Allocation to be transferred to the Applicant and the Project Sponsor, the Applicant and the Project Sponsor shall comply with all of the terms and conditions contained in this Resolution and ensure that these terms and conditions are included in the documents related to the Bonds. Further, the Applicant and the Project Sponsor expressly agree that the terms and conditions of this Resolution may be enforced by the Commission through an action for specific performance or any other available remedy, provided however, that the

Commission expressly agrees not to take such action or enforce any such remedy that would be materially adverse to the interests of the Bondholders. In addition, the Applicant and the Project Sponsor shall ensure that the Bond documents, as appropriate, expressly provide that the Commission is a third party beneficiary of the terms and conditions set forth in this Resolution.

Section 12. The Project Sponsor or its successor-in-interest shall provide certifications of compliance with the terms and conditions set forth in this Resolution when reasonably requested by the Commission.

Section 13. This Resolution shall take effect upon its adoption.

EXHIBIT A

RESOLUTION NO: 14-2-002 (A SMALL-ISSUE INDUSTRIAL DEVELOPMENT PROJECT)

1. Applicant: Alameda County Industrial Development Authority
2. Application No.: 14-0002
3. Project Sponsor: King Family Properties, LLC
4. Project User: Evolve Manufacturing Technologies, Inc.
5. Project Name: Evolve Manufacturing Technologies, Inc.
6. Location: 47220 and 47300 Bayside Parkway
Fremont, CA 94538
Alameda County
7. Amount of Allocation: \$5,700,000
8. The Project Sponsor has represented that it reasonably expects the User will use its best efforts to achieve the following within two years of the completion of the Project:
 - Creation of 30 additional direct, full-time positions.



Office of Economic Development

3300 Capitol Avenue, Building A | P.O. Box 5006, Fremont, CA 94537-5006
510 234-4020 *ph* | 510 284-4001 *fax* | www.fremont.gov

March 14, 2014

Sherri Kay Wahl
Deputy Executive Director
California Industrial Development Financing Advisory Commission (CIDFAC)
915 Capitol Mall, Room 457
Sacramento CA 95814

Dear Ms. Wahl:

The City of Fremont is requesting of the California Debt Limit Allocation Committee's approval of a \$6M Industrial Development Bond for Evolve Manufacturing Technologies (EMT). The funds will be used to purchase a 72,786 square foot building on 3.55 acres at 47300 Bayside Parkway in Fremont. EMT is a contract manufacturer in the medical device and sensor technologies industries, specializing in ultra-sound devices and electronic controllers for robotic applications.

EMT will relocate their existing operations and retain all 52 employees from Mountain View to Fremont and plans to hire an additional 30 employees over the next two years. The project is consistent with the broad planning and zoning regulations.

IDB financing is an important tool to facilitate business expansion and retention in California. The project is very important to the City of Fremont. We strongly support of the approval of the \$6,000,000 IDB project application being submitted by the Industrial Development Authority of Alameda County on behalf of Evolve Manufacturing Technologies, Inc., which will be reviewed by the California Industrial Development Financing Advisory Commission (CIDFAC) on April 15, 2014.

Sincerely,

A handwritten signature in black ink, appearing to read "Kelly Kline".

Kelly Kline
Director of Economic Development